

LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Tori Hunthausen, Legislative Auditor
FROM: Ross Johnson, Senior Performance Auditor
DATE: January 30, 2013
RE: Distribution of Cigarette Tax Revenues to State Veterans' Homes, Legislative Request 13L-3656

In Montana, state veterans' homes receive funding from several sources, including private, federal, and state sources. The state share of funding is derived from a tax levied on cigarettes. According to §16-11-119(1)(a) MCA, 8.3 percent or \$2 million (whichever is greater) of the taxes collected are to be used for the operation and maintenance of the state veterans' nursing homes. Section 16-11-119(2), MCA goes on to state that if the ending fund balance exceeds \$2 million, the excess is transferred to the state general fund. These funds are also referred to in §10-2-417(2), MCA which states that the legislature shall appropriate the funds required for the operation and maintenance of the Montana veterans' homes.

A recent performance audit, Montana State Veterans' Homes (12P-03), found that the distribution of funds between the veterans' homes provides a greater benefit to the residents of the Montana Veterans' Home (MVH) than is provided to the residents of the Eastern Montana Veterans' Home (EMVH). During the 2010-11 fiscal years, Columbia Falls received \$51.20 per resident bed day while Glendive received \$12.25 per bed day. This led auditors to recommend the legislature review the allocation of funding to determine if the distribution of funding should be addressed in statute.

During the 2014-15 biennium the Department of Public Health and Human Services (DPHHS) plans to open a third home, the Southwest Montana Veterans' Home (SMVH) in Butte. Like EMVH the new home will be overseen by the department's Senior and Long Term Care (SLTC) Division but will be operated by a private contractor.

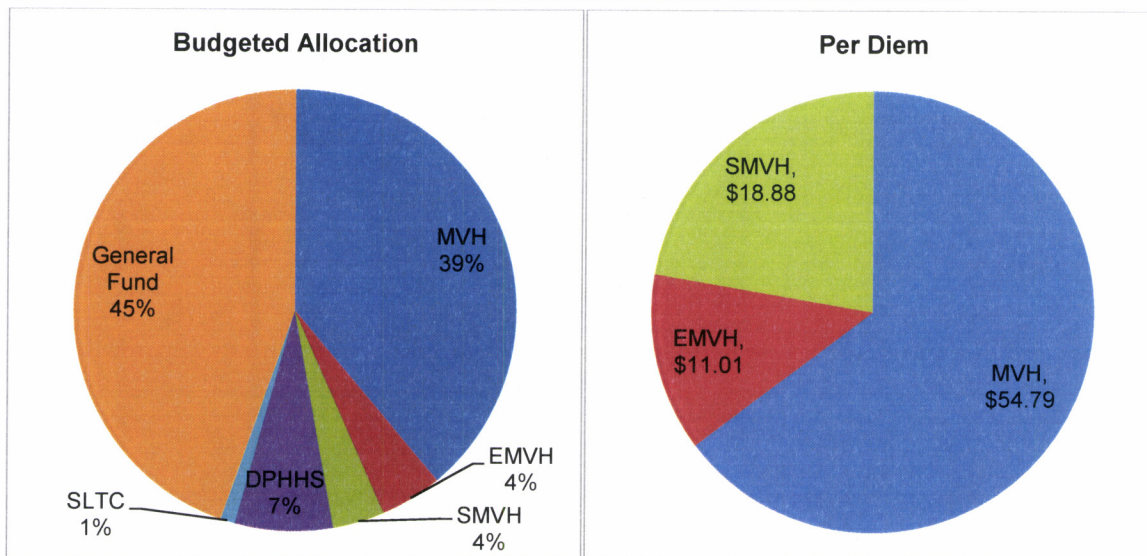
According to the department's budget request, the largest distribution of cigarette tax funding to the state homes will continue to be allocated to MVH. When expressed on a per bed day basis, MVH receives a greater share of funding than the other homes at almost \$55 per day while the other homes are budgeted to receive less than \$20 per bed day. Figure 1 on the following page displays the cigarette tax funding support each of the homes would receive per budgeted bed day in fiscal year 2015.

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Figure 1
Budgeted 2015 Cigarette Tax Funding for Veterans' Homes



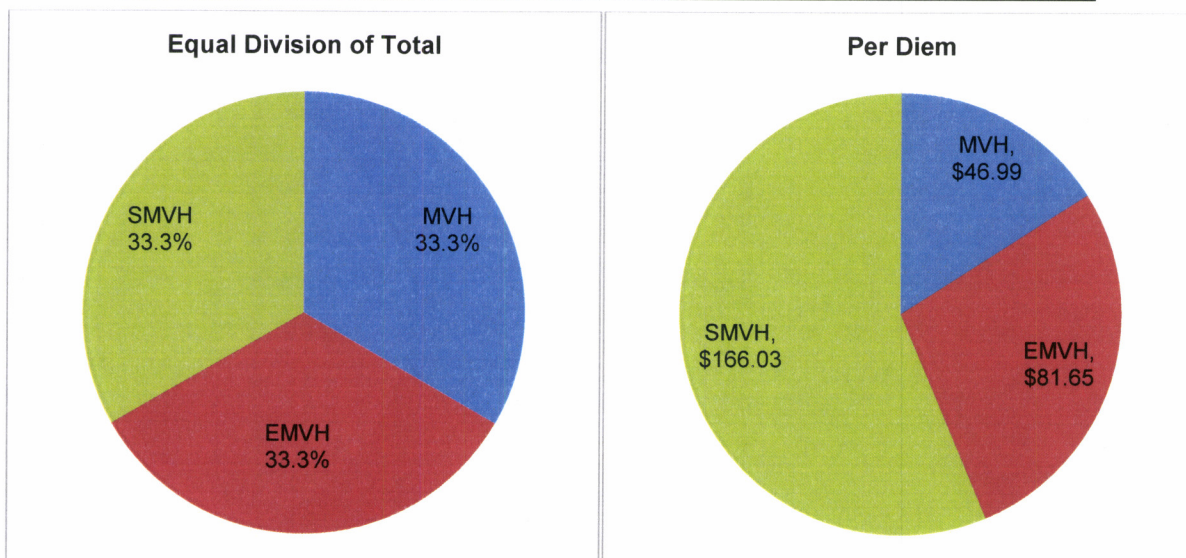
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This memo discusses several scenarios for funding the homes on a more equitable basis. It focuses on funding for the 2015 fiscal year since that is the first year in which all three homes are expected to be in operation.

Scenario 1: Dividing 2015 Cigarette Tax Funding into Equal Shares for Each Veterans' Home

The simplest way to achieve the goal of funding equity may be to divide the total expected cigarette tax funding available in three equal parts and provide one part for the operation and maintenance of each home. In 2015, the total cigarette tax available is expected to be \$5.454 million. An equal share for each home would be \$1.818 million. Under such a scenario, no funding would be available for DPHHS overhead (primarily used to support billing services at MVH) or SLTC oversight of the homes. Nor would any funds be transferred back to the general fund. Finally, since the homes are of differing size, the per bed day funding allocated to the homes would range from \$46.99 at MVH to \$166.03 at SMVH. Dividing the funding in equal shares would likely involve specifically defining equal distribution in order to achieve the principle of funding equity. Figure 2 displays the shares of the cigarette tax funding graphically.

Figure 2
Dividing 2015 Cigarette Tax Funding into Equal Shares for Each Veterans' Home



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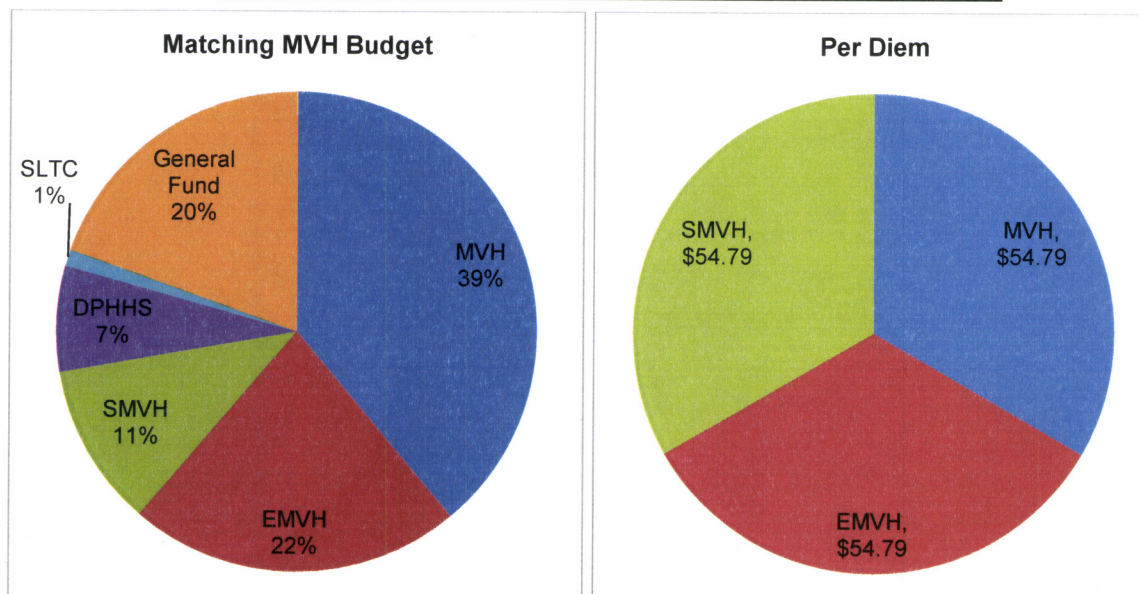
Rather than assign funding based on a share of total cigarette tax funding, it may be possible to provide cigarette tax funding to the homes on a per diem basis. This is similar to the method used by the federal Veterans Administration to fund state homes and would provide funding to each home at a set rate per bed day. Selecting a per diem rate would be a policy decision that is outside the scope of this request; however, several potential scenarios are described below.

Scenario 2: Matching 2015 MVH Cigarette Tax Budgeted Rate at Each Home

One option may be to provide funding to each home at a rate equal to the total amount requested by MVH adjusted to a per day basis. This rate would provide for the budget request at the most costly home, MVH, and subsequently provide funding at an equal per diem rate to the other homes. The requested rate for MVH amounts to \$54.79 per bed day. If funding was provided to the other homes at this rate EMVH would receive an additional \$974,859 and SMVH an additional \$393,249 over what has been requested. The additional funding could be used to defray the out-of-pocket costs that would have been paid by facility residents. In fiscal years 2010-11 the residents at EMVH paid a total annual average of \$1,712,312 (or \$73.14 per day) out-of-pocket towards the cost of care. Assuming the same amount is paid by home residents themselves in 2015, the additional funding could defray 57 percent of the residents' out-of-pocket costs.

The increased expenditures would mean a decrease of \$1,368,107 to the general fund. This allocation of funds is displayed graphically in Figure 3.

Figure 3
Matching 2015 MVH Cigarette Tax Budgeted Rate at Each Home

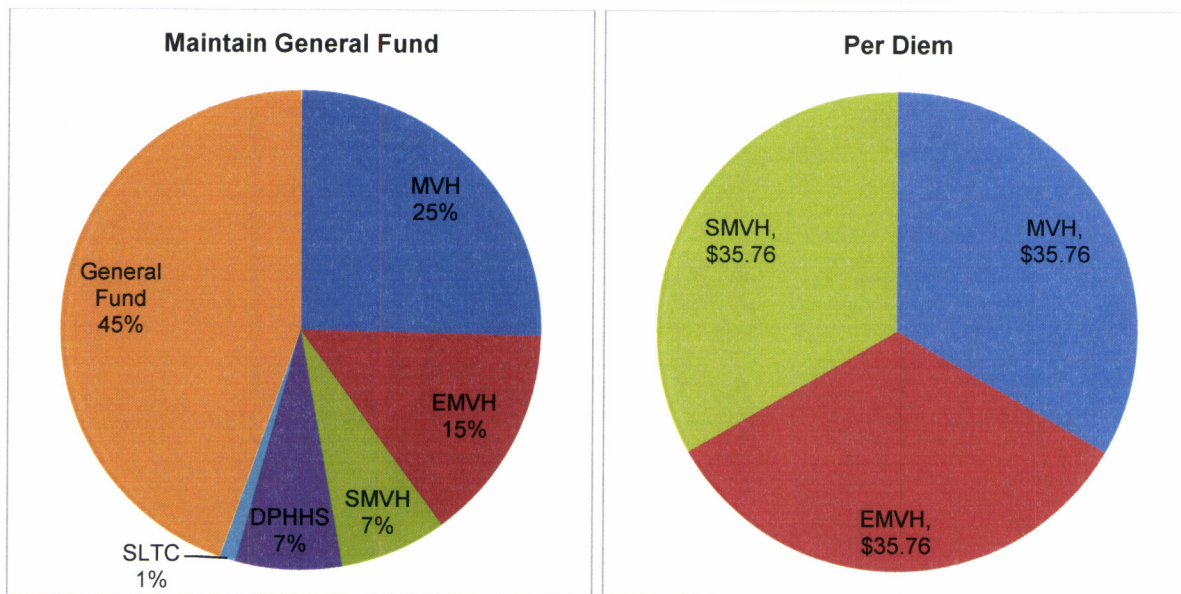


Compiled by the Legislative Audit Division from Legislative Fiscal Division Budget Analysis.

Scenario 3: Maintain General Fund by Dividing 2015 Budget Request

Another option may be to provide funding to each home at a level per diem rate while holding the total amount appropriated for home operations equal to the total budget request. The sum of the request for home operations and maintenance during fiscal year 2015 is \$2,571,575. Dividing this by the total number of budgeted bed days yields a per diem across all homes of \$35.76. If funding was allocated to each home on this basis, the total received by MVH would decrease by \$736,139 while EMVH would increase by \$551,232 and SMVH would increase by \$184,907. MVH would need to reduce costs or raise private-pay rates to make up for the reduced state revenue. The additional funding for the other homes could be used to defray the out of pocket costs that would be paid by facility residents. This scenario assumes no change to the amount appropriated for DPHHS and SLTC oversight so there is no change to the amount reverted to the general fund. This allocation of funds is displayed graphically in Figure 4.

Figure 4
Maintain General Fund by Dividing 2015 Budget Request



Compiled by the Legislative Audit Division from Legislative Fiscal Division Budget Analysis.

Scenario 4: Fund Only Building and Grounds Maintenance Plus an Administrative Position at Each Home

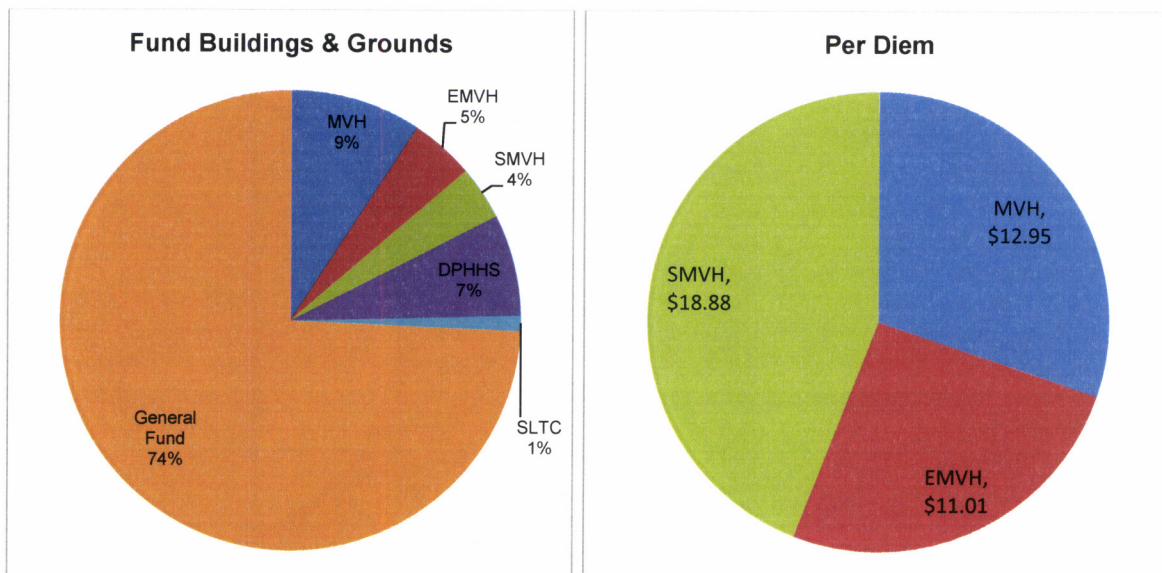
The funds requested for EMVH and SMVH represent only the cost of providing building and grounds maintenance plus one administrative position at each home. The legislature could seek to provide funding for these same services at MVH. The 2015 budget requests \$430,973 for buildings and grounds at MVH. The administrative position at the other homes costs approximately \$60,000. Assuming an administrative position at MVH might cost slightly more due to its larger size, we will assume a \$70,000 cost at MVH. In sum, the budget for these services would be \$500,973 in fiscal year 2015. This level of funding would represent a decrease of \$1,618,856 for which MVH would need to reduce costs or raise private-pay rates to make up for the reduced state revenue. The total budget requests under this scenario for the other homes and DPHHS and SLTC oversight would remain constant so the net increase to the general fund would be \$1,618,856. If the revenue provided to each home is expressed on a per bed day basis, the rates would be:

- ▶ MVH \$12.94
- ▶ EMVH \$11.01
- ▶ SMVH \$18.88

The rate provided SMVH would be somewhat higher than the other homes but the rate should decrease in future years as the resident population increases.

The allocation of funds discussed under this scenario is displayed graphically in Figure 5.

Figure 5
Fund Only Building and Grounds Maintenance Plus an Administrative Position at Each Home



Compiled by the Legislative Audit Division from Legislative Fiscal Division Budget Analysis.

Other Considerations

The amount of funding provided for the operation and maintenance of state veterans' homes is already decided by the legislature through the appropriations process. It may not be necessary to enact legislation in order to achieve the principle of funding each home equally; however, the current process has not achieved funding equity in the past nor is it forecast to for the 2014-15 biennium.

Also, the scenarios discussed above generally do not address the amount of cigarette tax funding that is used to support DPHHS and SLTC oversight of the home. The amount allocated to DPHHS generally supports billing operations related to residents of MVH. So, even if the allocation to the homes themselves is made on a more equitable basis, the operations related to MVH may still receive more support than other homes through the use of funds at DPHHS.

Finally, if the legislature does amend the current statutes addressing funding, it may also be necessary to amend the section of code (Title 53, Chapter 1, Part 4, MCA) that directs DPHHS to calculate the rate that is charged to facility residents. This Part of state law provides instruction related to the rate calculation process that may require amendment if additional funds are provided to any homes for the purpose of defraying out-of-pocket costs for home residents.

The scenarios discussed in this memo are not an exhaustive set of options for providing funding to state veterans' homes. Additional alternatives to equitably distribute cigarette tax funding between the homes may exist.